0 29655
0-3L962

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

PROCESSED BY
MAR 4 1992
Microfilmed by
Q-Data Corp. - St. Petersburg, FL
MAR 10 1992
SECTION

Form 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarter Ended January 31, 1992

1-10468

(Commission File Number)

ELECTRONIC TECHNOLOGY GROUP, INC.
(Exact name of registrant as specified in its charter)

315 North Main Street, Suite 200, Jamestown, New York 14701
(Address of registrant's principal executive office)

716-488-9699

(Registrant's telephone number)

Delaware	16-1297591
(State of Incorporation)	(IRS Employer Identification Number)

The registrant has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and has been subject to such filing requirements for the past 90 days.

The number of shares of common stock outstanding as of March 6, 1992 was 6,472,621.

BEST COPY
AVAILABLE

ELECTRONIC TECHNOLOGY GROUP, INC.

INDEX TO FORM 10-Q

		Page
Part I.	Financial Information	
	Item 1. Financial Statements	
	Consolidated Balance Sheet - January 31, 1992 and July 31, 1991.	1
	Condensed Statement of Consolidated Operations for the second quarters and six months ended Janury 31, 1992 and 1991.	2
	Consolidated Statement of Cash Flows for the six months ended January 31, 1992 and 1991.	3
	Notes to Consolidated Financial Statements	4
	Item 2. Management's Discussions and Analysis of Results of Operations and Financial Condition.	5-7
Part II.	Other Information	
	Item 4. Submission of Matters to a Vote of Security Holders.	8
	Item 6. Exhibits and Reports on Form 8-K.	8
	Signature.	9

I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ELECTRONIC TECHNOLOGY GROUP, INC.
CONSOLIDATED BALANCE SHEET

	January 31, 1992 (Unaudited)	July 31, 1991
ASSETS		
Current:		
Cash and cash equivalents	$ 125,737	$ 55,340
Accounts receivables, net	2,587,160	2,220,236
Inventories:		
Raw materials	1,802,595	1,676,378
Work in process	706,688	673,268
Total Inventories	2,509,283	2,349,646
Refundable income taxes	651,636	623,213
Due from officer/shareholder	50,952	51,012
Prepaid expenses	249,535	211,486
Total current assets	6,174,303	5,510,933
Property, plant and equipment at cost	5,636,669	5,284,601
Less accumulated depreciation	(887,568)	(620,140)
Net property, plant and equipment	4,749,101	4,664,461
Goodwill	2,246,770	2,305,366
Intangible assets	546,421	594,795
Other assets	358,718	393,951
Notes receivables	100,000	100,000
Total assets	$ 14,175,313	$ 13,569,506
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current:		
Notes payable	$ 1,077,539	$ 1,202,000
Accounts payable	2,276,185	2,687,166
Accrued expenses	574,564	578,003
Accrued income taxes	9,273	-0-
Customer deposits	16,450	-0-
Current portion of long-term debt	1,051,284	1,475,467
Total current liabilities	5,005,295	5,942,636
Long term debt	4,078,939	4,549,460
Deferred income taxes	52,898	36,898
Shareholders' Equity:		
Common Stock	29,527	12,952
Paid-in-capital	7,116,412	4,007,958
Retained earnings (deficit)	(2,107,758)	(980,398)
Total shareholders' equity	5,038,181	3,040,512
Total liabilities and shareholders' equity	$ 14,175,313	$ 13,569,506

See accompanying notes.

ELECTRONIC TECHNOLOGY GROUP, INC.
CONDENSED STATEMENT OF CONSOLIDATED OPERATIONS

(Unaudited)

	Quarter Ended		Six Months Ended	
	January 31, 1992	January 31, 1991	January 31, 1992	January 31, 1991
Net Sales	$ 4,069,844	$ 4,084,117	$ 7,907,008	$ 8,284,073
Cost of Sales	3,459,970	3,317,590	7,201,067	6,414,748
Gross Profit	609,874	766,527	705,941	1,869,325
Selling, General and Administrative	(791,273)	(894,073)	(1,458,739)	(1,534,713)
Income (Loss) from Operations	(181,399)	(127,546)	(752,798)	334,612
Other Income (Expense):				
Interest Expense	(219,618)	(197,742)	(412,814)	(351,936)
Interest Income	7,286	5,198	9,154	19,329
Miscellaneous	3,933	10,718	2,454	(2,406)
	(208,399)	(181,826)	(401,206)	(335,013)
Net Income (Loss) Before Taxes	(389,798)	(309,372)	(1,154,004)	(401)
Provision (Benefit) for Income Taxes	-0-	(94,640)	1,225	13,500
Net Income (Loss)	$ (389,798)	$ (214,732)	$ (1,155,229)	$ (13,901)
Net Income (Loss) per Common Share	$ (.06)	$ (.10)	$ (.26)	$ (.01)
Weighted Average Number of Common Shares Outstanding	6,021,493	2,093,611	4,494,567	2,093,611

The results of operations for the interim periods shown in this report are not necessarily indicative of results to be expected for the fiscal year. In the opinion of management, the information contained herein reflects all adjustments necessary to make the results of operations for the interim periods a fair statement of such operations. All such adjustments are of a normal recurring nature.

See accompanying notes.

ELECTRONIC TECHNOLOGY GROUP, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

	Three Months Ended	
	1/31/92	1/31/91
Cash flows from operating activities:		
Cash received from customers	$ 7,542,538	$ 7,249,694
Cash paid to suppliers and employees	(8,850,146)	(7,532,078)
Interest paid	(412,814)	(349,406)
Interest income	9,154	19,329
Income taxes paid	-0-	(383,486)
Net cash provided by (used in) operating activities	(1,711,268)	(995,947)
Cash flows from investing activities:		
Payment for purchase of subsidiary	-0-	(1,104,195)
Capital expenditures	(352,068)	(3,382,295)
Net cash used in investing activities	(352,068)	(4,486,490)
Cash flows from financing activities:		
Net proceeds from stock offering	3,152,897	-0-
Net borrowings (payments) per line of credit	(124,461)	320,000
Proceeds from issuance of long term debt	48,453	3,806,801
Proceeds from loans from officers/shareholders	-0-	49,714
Principal payments on loans from related parties	-0-	(15,000)
Principal payments on long term debt	(943,156)	(247,880)
Deposits	-0-	(10,000)
Net cash provided by financing activities	2,133,733	3,903,635
Net increase (decrease) in cash	70,397	(1,578,802)
Cash and cash equivalents at beginning of period	55,340	1,598,419
Cash and cash equivalents at end of period	$ 125,737	$ 19,617
Reconciliation of net income to cash flows from operating activities:		
Net income (loss)	$ (1,155,229)	$ (13,901)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	374,398	235,544
Deferred income taxes	16,000	1,000
Change in assets and liabilities:		
Decrease (increase) in accounts receivable	(366,924)	(1,034,379)
Decrease (increase) in inventories	(159,637)	(245,747)
Decrease (increase) in prepaid expense and other	(2,756)	(308,405)
Increase (decrease) in accounts payable	(410,981)	256,560
Increase (decrease) in accrued liabilities	13,011	310,341
Increase (decrease) in accrued income taxes	(19,150)	(93,815)
Total adjustments	(556,039)	878,891
Net cash provided by (used in) operating activities	$ (1,711,268)	$ (892,792)

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. In August, 1990, ACT II Printed Circuits, Inc., located in Tempe, Arizona, was acquired by the Company.

2. On October 17, 1991, the Company consummated a secondary public offering of its equity securities, consisting of 3,000,000 units. Each unit was comprised of one share of Common Stock and one Common Stock purchase warrant. The issuance of the capital stock has been reflected in the computation of earnings per share as presented in the Statement of Operations, as well as the receipt of cash proceeds from the underwriter, net of the underwriter's commission reflected in the Statement of Cash Flows.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

RESULTS OF OPERATIONS

Net sales of $4,069,844 for the quarter ended January 31, 1992 were a decrease of less than 1% of the sales of $4,084,117 for the comparable period in 1991. Sales for the first six months of the fiscal year, ending January 31, 1992, were $7,907,008, a decrease of approximately 5% over the comparable six month period in the prior year. Management believes that the decrease caused by the general downturn in the economy, which adversely affected the market for the Company's products and services during the prior fiscal year and into the immediately preceding reporting quarter, has continued to impact the results during the current reporting periods. Although sales have increased at the Liberty Engineering, Inc. (LEI) facility, when compared with the comparable periods in the prior fiscal year, Act II Printed Circuits, Inc. (Act II) sales have remained similar to those same periods. Sales at EJE Research Corp. (EJE) reflected significant decreases. While much of EJE's business comes from customers located in the northeast portion of the US, as does LEI's, EJE's customers continued to be negatively impacted during the current reporting periods, whereas LEI customers began to increase their orders. Management is unable to accurately state whether these trends will continue during the remainder of the current fiscal year, but believes that bookings at EJE will increase over those of the current six month period.

Cost of production, as a percentage of sales was 85% for the fiscal quarter ended January 31, 1992, as compared with 81% for the comparable period in the prior year, and approximately 91% and 77% for the six month fiscal periods ended January 31, 1992 and 1991 respectively. These increases are primarily due to the economic downturn which has had, and continues to have, an adverse impact on the operating performance of the Company. In addition, a fire occurred at the Act II facility, causing that subsidiary to lose two weeks production time. In spite of the production inefficiencies attributable to the fire, Act II has begun to realize improvements in productivity and operating efficiencies due to the education of the employees in utilizing the manufacturing systems installed during the prior fiscal year. A 6% improvement in efficiency, as a percentage of sales was experienced between the first and second quarter of the current fiscal year. Management anticipates that overall costs of production will continue to decrease during the remaining quarters.

Selling, general and administrative expenses, as a percentage of sales, were approximately 19% for the fiscal quarter ended January 31, 1992, as compared with approximately 22% for the comparable quarter ended January 31, 1991, and approximately 18% for the six months ended January 31, 1992 contrasted with 19% for the comparable period ended January 31, 1991. The fiscal year 1992 decreases are attributable, in substantial part, to the Company's reduction in salaries paid during the current reporting periods. Management believes that many excess overhead expenses have been eliminated and each location's SG&A contribution is very efficient. Should sales increase during the remainder of the fiscal year,

the fixed overhead expenses will be further absorbed and these expenses, as a percentage of sales, should decrease to the 14% range.

Interest expense during the quarter ended January 31, 1992 was $219,618, approximately 5% of sales, as compared to $197,742, or 5% of sales, for the quarter ending January 31, 1991. For the six months ended January 31, 1992, the interest expense was $412,814, or 5% of sales, compared with $351,936, or 5% of sales for the six months ended January 31, 1991. Although interest expense continues to decrease at EJE and LEI, due to the decline in principal note and the variable interest rates, the fixed rate cost of financing the Act II acquisition and expansion will continue to keep interest expense at an approximate 5% of sales for the remainder of the fiscal year. Should Management be successful in securing a new Corporate financing package, a significant savings could be realized.

Interest income, reflected during the current and comparable reporting periods, is a result of temporary short-term investments in bank certificates of deposit and commercial paper. The funds for these investments, during the current fiscal year, were derived from the proceeds of the Company's secondary public offering, and during the periods in the prior fiscal year, from the Company's initial public offering. As the proceeds have now been utilized, further interest income is not anticipated during the remainder of the current fiscal year.

The net loss for the second quarter ended January 31, 1992 was $389,798, or .06 per share, contrasted with a loss of $214,732, or $.10 per share, for the quarter ended January 31, 1991. For the six months ended January 31, 1992, the net loss was $1,155,229, or $.26 per share, compared with a loss of $13,901, or $.01 per share, for the prior year six month period. The number of outstanding shares of common stock, utilized in the computation of earnings per share, increased during the fiscal 1992 reporting periods, as a consequence of the issuance of additional shares in the Company's secondary public offering.

Management believes that the losses reported during the current fiscal year periods are the result of three factors: 1) the general downturn in the economy continues to impact each of the subsidiaries; 2) the effects of the operating inefficiencies created as a consequence of the Act II expansion program are still contributing to the loss; 3) the above referenced fire which took place in the production area of Act II, on December 23, 1991, caused the Company to incur an estimated $100,000 in directly related expenses. This fire, combined with the resultant production loss during the two week shut down, caused Act II not to realize the anticipated break-even goal for the quarter.

It is Management's belief that replacement of general managers at each of the three subsidiaries during the current reporting quarter has shown very positive results at each facility. In addition, quoting activity at both EJE and LEI, as well as increased sales efforts, have generated

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION (CONTINUED)

several new customers in each of those locations. Management is optimistic about the business potential which has begun to develop. Also, Act II has recently contracted with a new sales representative group to assist in generating new sales opportunities in the Southwest U.S.

LIQUIDITY AND CAPITAL RESOURCES

Operating losses at the Act II facility continue to impact the cash flow of the Company. However, the procedures established, particularly in the areas of education and training of the production personnel, have begun to have a measurable effect in improvement of the quality of the manufactured product, as well as a decrease in the costs of production. Management believes that these improvements resulted in the decrease of the net loss at Act II by approximately 70% from the first quarter.

The above referenced fire, at Act II, has resulted in the preparation of an insurance claim by the Company and its outside consultant for reimbursement of the expenses incurred for both the clean up of the damage, and the replacement of lost equipment. As the extent of the fire was minor, and the accident occurred at a time when employees were not working, the Company was fortunate that no one was injured and that the fire suppression equipment was properly employed to keep the losses at a minimum. A great deal of effort by all employees resulted in an actual production loss of only two weeks. However, the forced shutdown, combined with the loss of productivity for a period subsequent to the shut-down, has prompted the Company to prepare a claim for reimbursement from its business interruption insurance policy. Should the claims be approved, the receipt of the insurance proceeds would have a positive impact on the statement of operations during an ensuing reporting period.

Through the end of this current quarter, the balance of the proceeds of the recent offering have been utilized, primarily for working capital to improve the operation of the production facilities and to strengthen vendor relationships. As a result, the flow of material to production has occurred more efficiently.

The Company is continuing to search for a lender to provide a corporate refinancing package and is utilizing several independent brokers to assist in that search. As lending rates are more favorable in today's marketplace, should the Company be successful in this effort, for which there can be no assurance, Management believes that the reduction in the cost of debt will provide additional working capital to fund growth of the company, as well as provide the vehicle necessary to retire the acquisition debt which matures at the beginning of the next fiscal year. EJE was recently notified by their bank that the existing line of credit has been renewed for a six month period.

PART II. OTHER INFORMATION

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

(a) The Company held its Annual Meeting of Shareholders on December 19, 1991. The sole order of business was the routine election of directors.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits - None

(b) Reports of Form 8-K - None

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ELECTRONIC TECHNOLOGY GROUP, INC.

Date: 3/8/92 By: _____

Curt B. Westrom
Chief Financial Officer,
Secretary and Treasurer

Signing on behalf of the
Registrant and as principal
financial officer.